Your Pension. Your Future.

Municipal Employees' Pension Plan

2016 Annual Report

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2016

This annual report is available in electronic format at www.peba.gov.sk.ca

The Municipal Employees' Pension Plan (MEPP) provides retirement benefits to the employees of school divisions, urban and rural municipalities, regional colleges, regional public libraries and other local authorities within the Province of Saskatchewan.

Our Purpose

To provide retirement income and pension services to members.

Our Mission

To oversee and direct the administration of the Plan, and manage the assets, all in the best interests of the members.

Our Values

Accountability • Professionalism

Integrity • Fairness

LETTERS OF TRANSMITTAL

Kevin Doherty, Minister of Finance

Her Honour, The Honourable Vaughn Solomon Schofield
Lieutenant Governor of the Province of Saskatchewan

May it Please Your Honour:

I respectfully submit the Annual Report of the Municipal Employees' Pension Plan for the year ending December 31, 2016.

Kevin Doherty
Minister of Finance

The Honourable Kevin Doherty
Minister of Finance

Sir:

On behalf of the Municipal Employees' Pension Commission, I have the honour of submitting the Annual Report of the Municipal Employees' Pension Plan for the year ending December 31, 2016.

Rory Griffith
Chair

CHAIR'S COMMENTS

Rory Griffith, Chair

On behalf of the Municipal Employees' Pension Commission, I am pleased to present the Annual Report for the year ending December 31, 2016.

We know that pension plan sustainability remains one of the biggest challenges facing Canada's defined benefit plans; this holds true for MEPP as well. In 2016, the Commission continued to focus its efforts on exploring MEPP's long-term sustainability. This is a direct result of MEPP's primary purpose, which is providing retirement income to members. In doing so, the Commission proposed changes to maintain Plan sustainability.

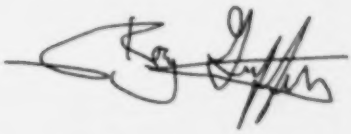
Another key aspect of MEPP's purpose, which the Commission is deeply committed to, is providing pension services to members. This past year, the Commission continued to pursue initiatives aligned with this purpose. A significant initiative is the renewal of the MEPP administration system. This multi-year project involves replacing a sixteen-year old system that will soon be out-of-date. Not only will this new system enable both members and employers to take advantage of convenient and user-friendly self-service functions, it will improve the overall service experience, with greater efficiency.

As for new initiatives in 2016, the Commission focused on the following items because of their direct impact on improving overall service to MEPP's members:

- One of the most visible initiatives this past year was the rollout of MEPP's Member and Stakeholder Engagement Strategy. Last May, MEPP launched two social media channels, including Facebook and Twitter, which allows for greater dialogue between MEPP and its members and employers, and for more timely communication. As well, work has started on another element of the engagement strategy, which includes digital communications, such as videos.
- MEPP updated its Online Retirement Planner to make it more user-friendly.
- The Commission will be undertaking a comprehensive asset liability review with the goal of creating an investment structure to support long-term sustainability of the Plan.

Looking ahead, MEPP is committed to working with all stakeholders to ensure that the Plan continues to manage long-term sustainability, while at the same time, providing members with retirement security today, and into the future.

Sincerely,

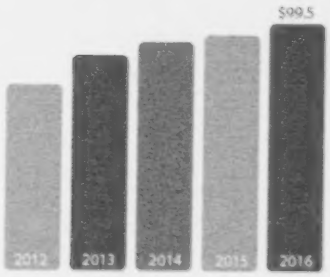


Rory Griffith
Chair

2016 By the

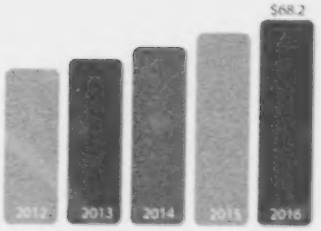
MEPP MANAGES MEMBER ASSETS OF
$2.3 BILLION

CONTRIBUTIONS MADE TO THE PLAN



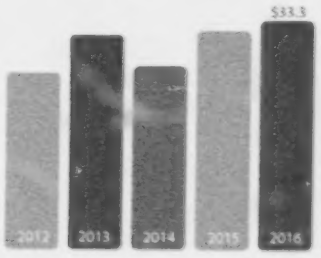
99.5 MILLION

TOTAL PENSION PAYROLL



68.2 MILLION

TOTAL TRANSFERS, REFUNDS, AND TERMINATION PAYMENTS



33.3 MILLION

INVESTMENT AND ADMINISTRATION COSTS

17.0 MILLION

TOTAL FUND RETURN

8.9 PER CENT

BENCHMARK IS 6.9 PER CENT

Numbers (as at December 31, 2016)

MEPP Fund Investment Performance (%)										
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Total fund return	8.9	7.6	20.8	9.6	14.5	0.6	10.0	14.5	(16.2)	4.2
Benchmark	6.9	5.8	19.5	7.8	10.8	1.0	10.1	15.5	(17.7)	3.3

Comparative Investment and Administration Costs ($ thousands)										
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Administrative costs	5,860	5,758	5,330	4,997	4,894	4,922	4,048	3,654	3,162	2,822
Investment fees	11,207	10,377	9,234	8,651	6,016	4,796	4,409	4,995	6,322	4,113
Totals	17,067	**16,135**	**14,564**	**13,648**	**10,910**	**9,718**	**8,457**	**8,649**	**9,484**	**6,935**

MEMBER PROFILE

25,000 plan members

Including active, inactive & pensioners

5.4 thousand pensioners

47.2 years of average age

of active members

Plan Profile

MEPP is a defined benefit pension plan which provides retirement benefits to a number of municipal employees in Saskatchewan, including:

- every urban and rural Saskatchewan municipality;
- the board of education of every school division and the board of trustees of every school district;
- the Conseil scolaire fransaskois;
- the board of several regional libraries and colleges; and
- any other groups or organizations that may be designated by regulation of the Lieutenant Governor in Council.

Pensions are based on a formula that provides pension, disability, death and termination benefits for all eligible members. The formula is based on highest average salary, pensionable service and the accrual rate in effect during the years of service. Members contribute a fixed percentage of salary. Employers match these contributions.

The amount of pension a member will receive is not directly related to investment returns. An adequate level of contributions and positive investment returns are necessary to secure the Plan's ability to pay benefits.

Under normal retirement rules, members may retire and receive a pension with no reduction if they are 65 years of age, or if their age and eligibility service equal at least 80 years. Members may retire and receive a reduced pension if they have reached age 55 and have at least 15 years of eligibility service.

Designated firefighters and police officers may receive an unreduced pension if their age and eligibility service equal at least 75, they are 55 years of age, or they have at least 25 years of eligibility service. These members may retire and receive a reduced pension if they have reached age 45 and their age and eligibility service equal at least 70.

MEPP's history begins in the 1940s. Initially, the Rural Municipal Secretary Treasurers' Superannuation Plan was established in 1941. In 1949, the Urban Employees' Superannuation Plan was established. In 1959, these two plans joined to form the Municipal Employees' Superannuation Plan, which became a defined benefit plan in 1973.

MEPP is registered under the *Income Tax Act* (Canada) and *The Pension Benefits Act, 1992* and related regulations. It is governed by *The Municipal Employees' Pension Act* and related regulations.

The Commission

The Commission administers MEPP. The Commission has the fiduciary responsibility for administering MEPP and managing the investment activities in the best interests of all MEPP members.

The Commission has 10 members, five appointed on behalf of participating employers and five on behalf of employees. The full term of office for Commission members is four years. A member may be appointed for two terms.

The Commission members elect a Chair and a Vice-Chair. At December 31, 2016, the Commission was composed of the members listed below.

Rory Griffith, Chair
The Saskatchewan Association of School Business Officials

Beverly Crossman, Vice-Chair
Regional Colleges/ Regional Libraries

Randy Goulden
The Saskatchewan Urban Municipalities Association

Harvey Malanowich
The Saskatchewan Association of Rural Municipalities

Jeff McNaughton
Saskatchewan School Boards Association

Wayne Steen
Saskatchewan School Boards Association

Randy Hurd
Associations representing Designated Police Officers and Firefighters

Janice Wolfmueller
Trade Unions representing employees who are members of the Plan

Brad Hvidston
The Urban Municipal Adminstrators Association of Saskatchewan

Tim Leurer
The Rural Municipal Administrators' Association of Saskatchewan

Attendance

The Commission met nine times in 2016. Table 1.1 shows the number of meetings each Commission member attended.

Name	Number of Meetings Attended
Rory Griffith	8
Beverly Crossman	9
Randy Goulden	8
Harvey Malanowich	8
Jeff McNaughton	8

Name	Number of Meetings Attended
Wayne Steen	8
Randy Hurd	7
Betty Moleski*	9
Brad Hvidston	8
Tim Leurer	9

Table 1.1

* Betty Moleski's term ended on November 30, 2016 and she was replaced by Janice Wolfmueller whose term started December 1, 2016. The Commission does not meet in December.

BACK TO FRONT:

Randy Goulden, Tim Leurer, Mark Fedak*, Harvey Malanowich, Jeff McNaughton, Janice Wolfmueller, Beverly Crossman, Rory Griffith, Brad Hvidston **NOT PICTURED:** Randy Hurd

*was not on the Commission in 2016; replaced Wayne Steen.

Mission
Goals
Values

Mission

The Commission's mission is to oversee and direct the administration of the Municipal Employees' Pension Plan, and manage the assets, all in the best interests of its members.

Goals

Customer Service Exceilence

The Commission is determined to identify, assess, and implement opportunities where appropriate, that add value to the communication and service provided to Plan members.

Plan Integrity

The Commission is committed to achieving the needs of Plan members and employers through affordable, sustainable Plan benefits and services.

Governance Leadership

The Commission strives to demonstrate leading practices of pension plan governance.

Transparent Accountability

The Commission informs the Plan's members and stakeholders about its strategy, operations and values, as well as how Plan performance is measured, managed and reported.

Values

Accountability

We are accountable to the members and stakeholders for our administration of the Plan. We operate in a transparent manner.

Professionalism

We strive for excellence in the administration of the Plan by being diligent and making informed decisions.

Integrity

As trustees of the Municipal Employees' Pension Fund, we hold ourselves to the highest standards of integrity. We strive to always act with honesty and in a manner worthy of the trust our members have placed in us.

Fairness

We administer the Plan in the best interests of all members of the Plan. We strive to ensure that our decisions are equitable for all Plan members by adhering to decision making that is fair and open-minded. Our actions are courteous, considerate and responsive.

Education

There is an education program for Commission members. The purpose of this program is to ensure Commission members possess a sound knowledge and understanding of pension, investment and governance issues. The Commission budgets $5,000 per year for each Commission member for educational registration fees.

Upon appointment new Commission members receive information outlining the documents that come before the Commission, the Municipal Employees' Pension Plan member booklet, the Annual Report, information on the budget, the funding policy, the Statement of Investment Policies and Procedures, the Strategic Business Plan and updates, the Risk Management Plan and review of the previous year's Risk Management Plan, as well as the meeting minutes for the past year.

Within three months of appointment, members will receive an orientation provided by the PEBA executive management team.

Commission members have a formal education program that they are required to attend. The program provides courses and seminars that deliver content specific to investment, funding, and governance-related information.

- Within one year, members must attend education sessions on basic investment and actuarial principles, as well as the Governance course offered by the Smith School of Business at Queen's University.
- Within two years, members are to complete a minimum of one of the following course options:
  - the Board Effectiveness Program presented by the International Centre for Pension Management at the Rotman School of Management, University of Toronto;
  - the Foundations of Trust Management Standards (FTMS) and the Advanced Trust Management Standards (ATMS) courses presented by the International Foundation of Employee Benefit Plans;
  - The School of Pension Investment Management (SPIM) course presented by Mercer Canada and the Schulich School of Business, York University; or
  - an alternate comparable course.

Commission members who have completed the formal education program are required to attend one educational event annually that is facilitated by an industry-recognized pension and benefits organization. A Commission member who is actively pursuing the formal education program is exempt from the ongoing developmental requirements for members. However, all members are strongly encouraged to attend an educational event.

Conferences and other events attended by Commission members as part of their ongoing education, provide the Commission with information on the current governance, investment and legal environment affecting pension plans. They also provide opportunities for Commission members to meet with pension experts and trustees from other plans to discuss common issues.

As part of a comprehensive education program, education sessions delivered by industry professionals were provided throughout the year as agenda items during Commission meetings. Commission members were provided education on Actuarial Assumption Setting, Supplier Management, Testing Assumptions, Investment Oversight, Securities Lending, Bond Overlay Strategy and Risk Management within meetings and special education sessions in 2016.

Table 1.2 lists education events attended by Commission members in 2016.

2016 Education

Commission Member	Education
Beverly Crossman	Board Effectiveness Program ACPM – The State of the Pension Nation Enterprise Risk Management Governance and Investment Oversight for Boards
Brad Hvidston	IFEBP – Foundations of Trust Management Standards Enterprise Risk Management Governance and Investment Oversight for Boards
Randy Hurd	ACPM Annual Conference ICD – Pension Plans and Risk Canadian Pension and Benefits Institute – Financial Literacy and Pension Plan Members Enterprise Risk Management Governance and Investment Oversight for Boards
Rory Griffith	ACPM Annual Conference IFEBP Canadian Legal and Legislative Update Mercer Investment Forum Enterprise Risk Management Governance and Investment Oversight for Boards
Betty Moleski	ACPM Annual Conference ICD – Pension Plans and Risk Enterprise Risk Management Governance and Investment Oversight for Boards
Tim Leurer	IFEBP – Foundations of Trust Management Standards Canadian Pension and Benefits Institute – Financial Literacy and Pension Plan Members Enterprise Risk Management Governance and Investment Oversight for Boards
Wayne Steen	Lancaster National Pensions Conference Enterprise Risk Management Governance and Investment Oversight for Boards
Jeff McNaughton	Canadian Investment Institute Enterprise Risk Management Governance and Investment Oversight for Boards
Randy Goulden	Enterprise Risk Management Governance and Investment Oversight for Boards

Table 1.2

Commission members are reimbursed for expenses incurred while on Commission business, for education costs, and they receive remuneration compensating them for the time necessary to prepare for and to conduct Commission business.

Remuneration is made according to Table 1.3.

Table 1.4 lists total Commission expenses for 2016.

Table of Remuneration

	Commission Chair	Commission Member
Per Diem - meetings	$450	$250
Preparation for meeting attended	$450	$250
Per Diem - education	$250	$250
Travel time	$0.30/km	$0.30/km
Course registrations - maximum per year†	$5,000	$5,000
Expenses	reimbursement	reimbursement

Table 1.3

† If a Commission member attends Rotman's Board Effectiveness Program as a required course in the second year, the member may exceed the maximum as the course fees are greater than the annual maximum. However, the member is not eligible to attend any other education events that are not complementary in that year.

Commission Expenses

Name	Course Registrations	Education Honorariums & Travel Time	Education Expenses	Meeting Honorariums & Travel Time	Meeting Expenses	Total
Rory Griffith, Chair	$3,289.50	$3,000.00	$4,954.67	$7,200.00	$310.00	$18,754.17
Beverly Crossman, Vice-Chair	$6,950.00	$2,027.60	$2,726.62	$5,111.20	$649.67	$17,465.09
Wayne Steen	$1,395.00	$1,057.00	$1,690.01	$6,276.60	$4,632.78	$15,051.39
Randy Goulden	$0.00	$250.00	$0.00	$5,210.00	$3,141.68	$8,601.68
Betty Moleski	$2,175.00	$1,750.00	$3,283.04	$5,956.20	$4,052.97	$17,217.21
Randy Hurd	$1,680.00	$2,251.80	$2,608.52	$5,434.20	$4,639.11	$16,613.63
Brad Hvidston	$1,650.00	$1,692.00	$2,821.26	$5,536.00	$4,386.46	$16,085.72
Jeff McNaughton	$1,545.00	$1,500.00	$1,994.85	$4,000.00	$0.00	$9,039.85
Tim Leurer	$1,650.00	$1,300.00	$1,057.64	$5,775.00	$3,756.32	$13,538.96
Harvey Malanowich	$0.00	$0.00	$0.00	$5,402.00	$2,454.55	$7,856.55
Total	$20,334.50	$14,828.40	$21,136.61	$55,901.20	$28,023.54	$140,224.25

Table 1.4

Commission education costs totalled $56,299.51 in 2016.

Contracted Services

The Commission is ultimately responsible for the Plan's administration, communication and investment activities. To discharge these responsibilities, the Commission uses the services of various organizations.

The Commission contracts with the Public Employees Benefits Agency (PEBA) to provide executive management and administrative services for the Plan. PEBA is part of the Ministry of Finance, Government of Saskatchewan, and administers a wide range of pension and benefit plans.

Under contract with the Commission, PEBA:

- maintains all member and accounting records;
- collects and deposits contributions to the Municipal Employees' Pension Fund (the Fund);
- transfers contributions to the custodian of the Fund for investment;
- monitors, administers and assists in the execution of the Plan's investment program in accordance with the investment policy;
- calculates and pays all pension benefits;
- communicates with members and participating employers;
- recommends an actuary as an advisor to PEBA and the Commission, and retains an actuary selected on behalf of the Commission;
- recommends policy regarding calculating rates of interest and implements and calculates the rates of return for the Plan; and
- prepares the annual report.

PEBA is responsible for ensuring that all transactions are made in accordance with *The Municipal Employees' Pension Act*, *The Pension Benefits Act, 1992*, and their related regulations.

The Commission retains RBC Investor & Treasury Services as the Plan custodian, AON Hewitt as the Plan actuary, KPMG as Plan auditor, and Mercer (Canada) Limited as the investment consultant.

The Commission also retains the investment managers listed in Table 1.12 on page 35 of this report.

Plan Expenditures and Statistics

Pension Payments

The number of member retirements in 2016 is shown in Table 1.5.

Retirement Comparisons		
	2016	2015
Normal Retirement	97	71
Early Retirement	156	176
Postponed Retirement	61	53
Temporary Retirement	22	9
Total	336	309

Table 1.5

Plan Membership

In 2016, Plan membership increased as shown in Table 1.6.

Plan Member Comparisons		
	2016	2015
Active	15,397	15,887
Inactive	4,217	3,793
Pensioners	5,425	5,229
Total	25,039	24,909

Table 1.6

Income Allocation

In 2016, the Commission allocated interest to members' accounts at the rate of 1.17 per cent for the year.

Supplemental Increases for Pensioners

No supplemental increases were applied in 2016.

Operating Expenditures

Table 1.7 shows plan operating expenditures for the year ended December 31, 2016.

Expenses

	Total Cost (thousands)	(%)
Administration costs / Investment consultant fees	$5,860	34.34
Custodial fees	379	2.22
Investment management fees		
Infrastructure	2,488	14.58
Greystone Managed Investments Inc.	481	2.82
Foyston, Gordon & Payne Inc.	383	2.24
Brandes Investment Partners, LP	563	3.30
BlackRock Asset Management Canada Ltd.	72	0.42
Snyder Capital Management, LP	634	3.71
Insight Investment Management Ltd.	67	0.39
TD Asset Management, Inc.	450	2.64
Investec Asset Management	1,013	5.94
Canso Investment Council Ltd.	495	2.90
PIMCO Canada Corp.	567	3.32
Wellington Management Company, LLP	591	3.46
CGOV Asset Management	603	3.53
Vontobel Asset Management, Inc.	1,012	5.93
Private Equity	1,409	8.26
	$17,067	100.0

Table 1.7

PEBA reports measurement against standards to the Commission quarterly. Table 1.8 and Table 1.9 provide measurement results for 2016.

PEBA Service Standards January 1, 2016 to December 31, 2016

	Completed	Number that Met or Exceeded Standard	% that Met or Exceeded Standard	*Standard (Business Days and % Target)	
Statement on Termination (Option Letter)	1,816	1,604	88.3	20	75%
Statement on Death (Active/ Deferred) (Option Letter)	40	34	85.0	10	80%
Statement on Death (Pensioners) (Option Letter)	177	175	98.9	10	80%
Payments (includes on termination and death)	1,539	1,466	95.3	10	80%
Payment of New Retirements	350	345	98.6	15	80%
Pension Estimates (Retirement Option Letter)	581	526	90.5	10	90%
Marriage Breakdown Calculations	48	42	87.5	10	75%
Purchase of Service	51	49	96.1	20	80%
Portability Transfer Values	67	64	95.5	30	80%
Total	4,669	4,305	92.2		

Table 1.8

PEBA Periodic Requirements January 1, 2016 to December 31, 2016

	Completed	Number that Met or Exceeded Standard	% that Met or Exceeded Standard	*Standard (Business Days)
Annual Member Statement	1	1	100.0	75
Reporting on Budget Variances	4	4	100.0	Quarterly
Proposed Annual Budget	1	1	100.0	Annually
Performance Measurement	4	4	100.0	Quarterly
Decisions Affecting Stakeholders	0	0	n/a	1 Month
Newsletter (MEPP Matters)	2	2	100.0	Semi-annually
Total	12	12	100	

* Standard is set within the contract between the Commission and PEBA

Table 1.9

Active Employers

At December 31, 2016, there were 743 employers participating in the Plan.

The distribution of employers by employment sector is shown in Figure 1.1.

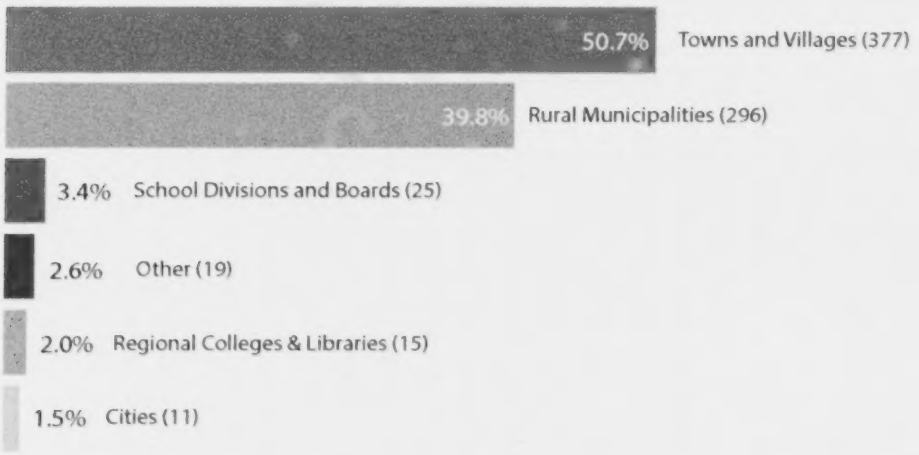


Figure 1.1

Active Members by Employer

The distribution of the Plan's active members by employer is shown in Figure 1.2.

The number of active members illustrated differs from the total active members in Table 1.6 on page 17 because some members work for more than one employer.

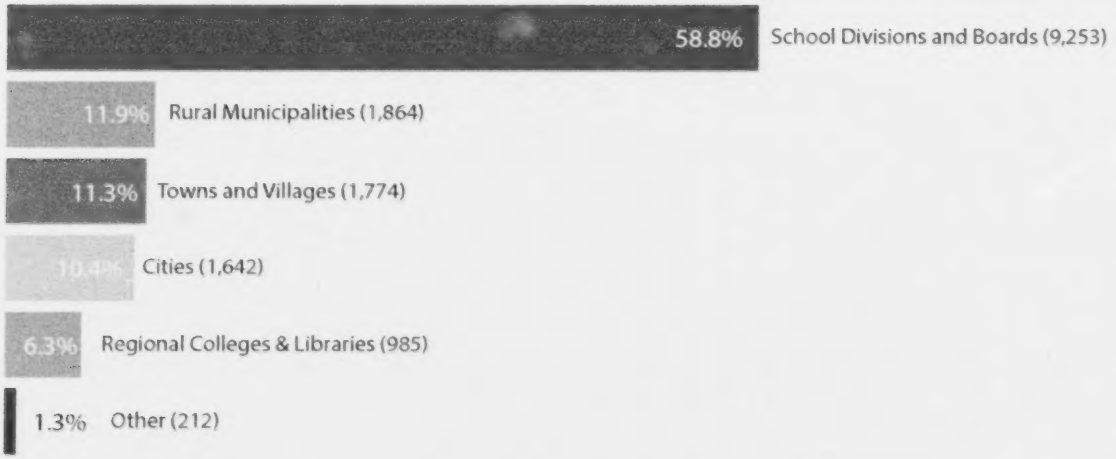


Figure 1.2

Key Performance Indicators

The Plan measures its performance in areas that are critical for success if it is to deliver the services that members expect from the Plan.

The Plan measures these critical success factors in four categories:

Customer measures track the performance of key customer-related tasks and how well members tell the Plan it is doing in terms of the information and services it provides members;

Financial measures track the Plan's performance in the areas of administration costs and investment performance;

Internal measures track the Plan's performance in the area of internal administration and governance processes; and

Innovation and Learning measures track the Commission's performance of educational activities supporting its oversight of the Plan's administration and investment activities.

Establishing targets ensures that the Commission is able to review the Plan's performance of key administrative tasks against a standard of practice, to track any changes in performance over time, and to be aware of the areas of strength and weakness in the Plan's administration.

The Commission reviews these key performance indicators twice per year. A review of the Plan's performance in 2016 is provided in the following pages.

Summary

The Plan has met the majority of its performance targets in 2016.

Service to members is a highlight of this report:

All customer key performance indicators exceeded targets for the year indicating effective communication with members and employers over the year through customer service, written communications and information sessions.

Indicators of underperformance:

The latest actuarial valuation of the Plan revealed a slight erosion in the funding ratio for the Plan. As such, current contributions may not be sufficient to ensure payment of future benefits. After thorough examination, the Commission has proposed increasing contribution rates and removing the commuted value option for members who reach their earliest reduced retirement date to address pressures on the sustainability of the Plan.

One of the Plan's key service providers received a less-than-satisfactory evaluation during the year, however the evaluation noted improvement compared to the previous year. As one service provider was not evaluated as satisfactory, the target for service provider excellence in 2016 will not be met.

Key performance indicators allow the Commission to monitor the services delivered to Plan members and the tasks that are critical for the Plan's ongoing success.

The Plan's budgeting cycle runs from April 1 of a given year through March 31 of the subsequent year. At the end of December 31, 2016, expenses are below budget. However, administration costs are projected to exceed target by the end of March, therefore the measure was reported as 'not met'.

Customer

Key Performance Factor	Measure	Target	Result
Provide service within service standards	Member transactions within service standards	More than 80 per cent of transactions meet service standards	Met
Effective Communication	Member satisfaction with information sessions	More than 90 per cent of member survey responses indicate satisfaction with information sessions	Met
Effective Communication	Member satisfaction with quality of communication materials	More than 90 per cent of member survey responses indicate satisfaction with communications	Met
Quality of Customer Service	Employer satisfaction with quality of customer service	More than 90 per cent of employer survey responses indicate satisfaction with services	Met

Financial

Key Performance Factor	Measure	Target	Result
Returns greater than benchmarks	Measure of the value-add in relation to the benchmark for the Fund	Rolling four-year rate of return is greater than the Fund benchmark.	Met
Plan Sustainability	Management valuation target funding ratio	Management valuation target funding ratio ensures sufficient assets to pay for future benefits	Not Met[1]
Performance to Budget	Administration costs are less than budgeted	Administration costs are within budgeted amount	Not Met[2]

[1] Current funding ratio has regressed slightly from last year. Valuation results show that current contributions may not cover current service and required deficit costs.

[2] By the end of the fiscal year, March 31, 2017, administration costs are expected to be over budget due to reduced staffing vacancies requiring increased salaries and a change in the accounting treatment of how salaries are capitalized.

Internal

Key Performance Factor	Measure	Target	Result
Performance to Budget	Strategic initiatives are within budget	Expenditures within budgeted amount	Met
Governance Excellence	Compliance with the CAPSA Guidelines	Board demonstrates 100 per cent compliance with CAPSA guidelines	Met
PEBA Leadership	Satisfactory rating for Executive Management Services	Commission's evaluation of its administrator shows satisfaction with the executive management services provided	Met
Supplier Management	Investment Manager compliance reporting, annually	All required compliance reports are submitted	Met
Supplier Management	Service provider performance is satisfactory	Performance of all service providers is satisfactory	Not Met[3]

[3] The performance of one of the Plan's key service providers was documented as unsatisfactory in some areas during the year. As a result, performance in this area will not meet the Commission's target of satisfactory performance from 100 per cent of key service providers.

Innovation and Learning

Key Performance Factor	Measure	Target	Result
Commission leadership	Commission engages in ongoing education	At least 80 per cent of Commission undertakes a course	Met

Strategic Initiatives

Mervi
MEPP Member

The strategic business plan sets out goals for the planning period in four major categories.

Strategic Initiatives

The Commission conducts periodic strategic planning sessions and reviews the strategic plan at least annually. The Strategic Plan for 2015-2017 and the associated initiatives were approved mid-2015 and set out goals for the planning period in four major categories:

Customer Service Excellence	Plan Integrity	Governance Leadership	Transparent Accountability
The Commission is determined to identify, assess, and implement opportunities where appropriate that add value to the communication and service provided to Plan members.	The Commission is committed to achieving the needs of Plan members and employers through affordable, sustainable Plan benefits and services.	The Commission strives to demonstrate leading practices in pension plan governance.	The Commission informs the Plan's stakeholders about its strategy, operations and values, as well as how Plan performance is measured, managed and reported.

The strategic business plan is developed as part of the Commission's comprehensive governance process, which includes regular strategic business planning and risk management planning. It is developed within the context of the Plan's purpose, mission and goals, and the Commission's values of accountability, professionalism, integrity and fairness. The updated strategic business plan considers a number of internal and external factors and a summary of the strategic business plan for 2015-2017 is available on the Plan website.

Customer Service Excellence

The Commission's objectives:

- **Provide members with information about the Plan, including individual member benefits and responsibilities, that is easy to understand, relevant, accurate, and timely.**
- **Support participating employers in their responsibilities.**
- **Maintain an up-to-date suite of services that meet evolving member needs.**

Activities in 2016

- *Replacement of the existing pension administration system continued throughout 2016. System configuration is nearing completion and testing has commenced.*
- *The Commission approved and initiated a member engagement strategy in 2016.*

Plan Integrity

The Commission's objectives:

- **Assess, manage, and monitor risk in the context of the interdependence that exists between the Plan's assets and liabilities.**
- **Preserve the accrued benefits for active and retired members and their beneficiaries.**
- **Provide sustainable benefits that are supported by the contributions required to meet the funding needs of the Plan.**

Activities in 2016

- *Assessment of the sustainability of the Plan continued throughout 2016. The Commission worked with its actuary to identify and prioritize stresses on sustainability. In the interest of preserving accrued benefits and safeguarding core lifetime benefits for all members, the Commission has approved a recommendation to increase contributions and to remove the option to remove a member's commuted value from the Plan if a member is eligible to retire.*
- *The Commission developed a three-year plan to review the Fund's asset mix and the oversight of investments.*

Governance Leadership

The Commission's objectives:

- **The Plan's business model, including roles and responsibilities of both the Commission and the contracted service providers, is consistent with the Plan's strategy and operations.**
- **Continuous improvement in the Commission's oversight of the Plan.**
- **Organizations that appoint people to the Commission understand the Commission's needs when making their appointments.**

Activities in 2016

- *The Commission continued to conduct a formal evaluation of the provision of executive management services and discussed the results. The Commission also identified opportunities to improve the evaluation process for subsequent years.*
- *The first meeting of the PEBA Joint Governance Committee including representatives from the Commission took place on June 24, 2016.*

Transparent Accountability

The Commission's objectives:

- **Members, employees and other stakeholders receive relevant and timely reporting on the performance of the Plan, the Commission and service providers.**
- **The membership, employers and other stakeholders are informed about how the Commission's strategy, operations and values impact the operation of the Plan.**

Activities in 2016

- *Key Performance Indicators were refined and tracked and a report on the activities is being made available within this report.*

Risk Management

Annually, the Commission will conduct a risk management review. This review is designed to identify potential events and trends that may positively or negatively affect the Commission's ability to achieve its strategic goals or maintain its operations. These events and trends are defined as risks.

The risk management process and review ensures that the Commission, along with its administrator PEBA, identifies and evaluates risks, ensures appropriate strategies are in place to manage these risks, and reviews the performance of the risk management strategies for the previous year.

The Risk Management Plan and its annual review ensure that a regular, documented process is in place for the management of the Plan's foreseeable risks. Documenting the rationale for arriving at decisions strengthens accountability and demonstrates due diligence.

Libbey
MEPP Member

The potential events and trends that may positively or negatively affect the operation of the Plan, the members or other Stakeholders of the Plan or the attainment of strategic goals.

Key Risks

In order to assist in the identification and assessment of all foreseeable risks in the Plan, the Commission has identified the following key broad-based risks of the Plan:

Broad-based Risks	(definition of risk)	Key Risks
Strategic Risk	encompasses the potential risks as they relate to communication and service delivery, plan design suitability, plan reputation, plan governance and accountability	Communications and member engagement Governance Risks to members/Plan stemming from members' need for advice/guidance
Financial Risk	relates to the investment, funding, and benefit policies, plan design costs, and demographic considerations	Market risk Funding requirement shortfall Changes in cost Fraud
Regulatory Risk	is associated with non-compliance with legislation, fiduciary obligations and the legal requirements of pension plan management	Non-compliance with legislative requirements Failure to meet fiduciary obligations to Plan members and their beneficiaries
Operational Risk	includes operational emergencies and non-compliance with governance policies	Investment manager performance Errors or omissions Loss of service provider Poor performance of service providers Capacity to deliver services

Table 1.10

The Commission has developed and implemented these strategies and business practices to manage the identified risks:

- The Commission consults with stakeholders periodically. A stakeholder consultation process provides employers and Plan members with the opportunity to consider the affordability of the benefits provided and the contributions needed to fund these benefits.
- The Commission regularly reviews plan design. A formal funding policy as a part of the design enables the Commission to be proactive in managing the financial status of the Plan.
- The Commission is committed to communications that inform members and employers on the Plan.

  The Commission's administrator provides retirement information seminars and individual information to Plan members.

  Information tools include member and employer seminars, employer bulletins and guides, written materials, and online resources such as the Plan website, the Electronic Remittance System and the *MOR*e retirement calculator.
- The Commission receives reports on administrative activities including service standards and a report on key performance indicators semi-annually. The Periodic Checklist is a list of major items identified by the Commission that are necessary for the administration of a pension plan. The checklist allows verification that an activity has been carried out. The completed Periodic Checklist is provided to the Commission on a semi-annual basis.
- The Commission strives to demonstrate leading practices in pension plan governance. This includes regular review of its Governance Manual to ensure it is comprehensive and effective.
- The Commission compares its governance against industry benchmarks and other pension plan governing bodies from across Canada.
- The Commission formally reviews its Strategic Business Plan on a periodic basis.
- The Commission has an Acquisition and Retention of Services policy that details how the Commission is to retain and evaluate service providers.

  The Commission retains service providers who are experts in the responsibilities to which they are assigned with respect to the Plan.
- The Commission evaluates the performance of the executive management services provided by its administrator, investment consultant, investment managers, and custodian at least annually.
- The Commission has a Statement of Investment Policies and Procedures (SIP&P) that outlines the Commission's investment beliefs and provides for risk management through diversification of asset classes, capital markets and investment managers.

  The SIP&P defines the benchmark to which investment performance is measured. The Commission annually reviews the SIP&P and communicates investment performance.
- The Commission ensures initiatives and Plan-related activities are adequately funded through its budgeting process.
- The Commission's administrator has internal controls in place which are reported on annually by the Office of the Provincial Auditor of Saskatchewan.
- Commission members are required to review and sign the Commission's Code of Conduct and Conflict of Interest Procedures annually.
- The Commission requires that service providers confirm that they maintain disaster recovery plans and adhere to a code of conduct.
- In order to identify and mitigate risks that affect the Plan, the Commission undertakes an annual risk management process.
- The Commission consults with legal counsel and other expert advisors regarding issues on which it is deliberating.
- On a periodic basis, the Commission reviews existing products, services and practices the Plan offers to its members.

Activities Accomplished in 2016

The final periodic checklist and the risk management review for 2016 confirmed that all required activities were completed in 2016. Beyond the required activities, the following items were also accomplished in 2016:

Continue the sustainability review of the Plan:

- Work continued with the Commission in consultation with its actuary assessing Plan sustainability. This included discussions on plan design, and key funding indicators.

Continue to monitor and review the process of oversight of key service providers:

- The Commission approved refining amendments to the key performance indicators and approved a new more comprehensive method of measuring member engagement and member satisfaction. This strategy will be implemented in 2017.

Administrative Policies:

- The Commission reviewed and approved new policies for the administration of the Plan.

Within regular meetings and at a special education session, the Commission received education on Actuarial Assumption Setting, Supplier Management, Testing Assumptions, Investment Oversight, Securities Lending, Bond Overlay Strategy and Risk Management.

Risk Management Philosophy Statement

The Commission is committed to creating and maintaining value for the stakeholders of the Plan. The Plan faces risks as the Commission fulfills this commitment. Therefore, the Commission is responsible for managing all foreseeable risks that could affect the operation of the pension plan and the Plan's stakeholders. Through its risk management process, the Commission identifies, measures, monitors and manages these risks in a manner that is consistent with the Commission's governance model.

Investments

In fulfilling its responsibility to prudently invest the Fund's assets, the Commission has adopted an investment policy for the Plan.

Trustees

As trustees of the Fund, the Commission is responsible for prudently investing the Fund's assets.

Investment Policy

The investment policy is set out in the Statement of Investment Policies and Procedures (SIP&P), which the Commission reviews annually.

The SIP&P contains guidelines for investment of Plan assets, and includes:

- investment and risk philosophy;
- asset mix and diversification policy, including portfolio return expectations;
- benchmarks for each investment manager and for the Fund;
- permitted investments and quality guidelines;
- monitoring and control responsibilities, including performance targets;
- compliance reporting and monitoring requirements; and
- conflict of interest guidelines.

Investment Consultant

The Plan's investment consultant is Mercer (Canada) Ltd. In 2016, the investment consultant provided strategic investment guidance, performance monitoring, regular and special project investment consulting, and reports to the Commission. The Commission paid consulting fees of $484,000 in 2016 (Table 1.11).

Investment Managers

The Commission delegates responsibility for investing the Fund assets to professional investment managers. Each manager invests within a specific mandate, as outlined in *Table 1.12*. Investment managers were paid a total of $10,828,000 in 2016.

Fees Paid for Investment Services in 2016	
Investment Managers (total)	$10,828,000
Investment Consultant	484,000
Custodian	379,000
Total	**$11,691,000**

Table 1.11

Assets by Investment Manager

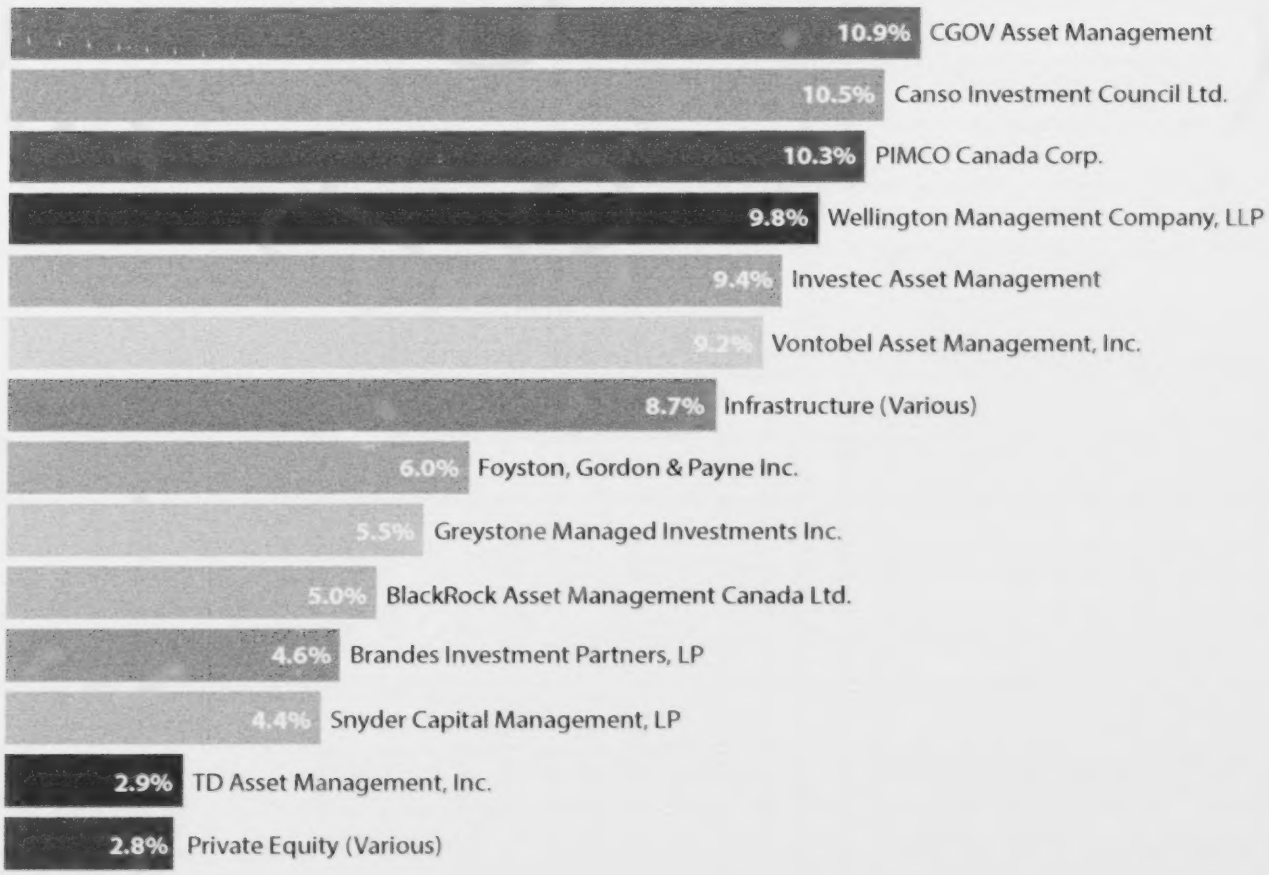

10.9% CGOV Asset Management
10.5% Canso Investment Council Ltd.
10.3% PIMCO Canada Corp.
9.8% Wellington Management Company, LLP
9.4% Investec Asset Management
9.2% Vontobel Asset Management, Inc.
8.7% Infrastructure (Various)
6.0% Foyston, Gordon & Payne Inc.
5.5% Greystone Managed Investments Inc.
5.0% BlackRock Asset Management Canada Ltd.
4.6% Brandes Investment Partners, LP
4.4% Snyder Capital Management, LP
2.9% TD Asset Management, Inc.
2.8% Private Equity (Various)

Figure 1.3

Investment Manager	Mandate
Canso Investment Council Ltd.	Corporate Bonds
PIMCO Canada Corp.	Core Plus Bonds
TD Asset Management, Inc.	Bond Overlay
Wellington Management Company, LLP	Long Bonds Plus
CGOV Asset Management	Canadian Equities
Foyston, Gordon & Payne Inc.	Canadian Equities
BlackRock Asset Management Canada Ltd.	U.S. Equities
Brandes Investment Partners, LP	Non-North American Equities
Investec Asset Management	Global Equities
Vontobel Asset Management, Inc.	Global Equities
Snyder Capital Management, LP	U.S. Small Cap Equities
Insight Investment Management Ltd.	Currency
Greystone Managed Investments Inc.	Real Estate
Antin Infrastructure Partners	Infrastructure
Global Infrastructure Partners Fund	Infrastructure
Kohlberg Kravis Roberts & Co. L.P.	Infrastructure
Macquarie Asia Infrastructure Management Limited	Infrastructure
SteelRiver Infrastructure Fund North America, LP	Infrastructure
CD&R Associates, L.P.	Private Equity
Falcon Investment Advisors, LLC	Private Equity
Great Hill Partners	Private Equity
K1 Investment Management, LLC	Private Equity
Lexington Partners L.P.	Private Equity
Lovell Minnick Equity Partners LP	Private Equity
Neuberger Berman Group LLC	Private Equity
New Mountain Capital LLC	Private Equity
Silver Lake Management LLC	Private Equity
Stirling Square Capital Partners LLP	Private Equity
Thompson Street Capital Manager LLC	Private Equity
Vista Equity Partners	Private Equity

Table 1.12

Custodian

The Commission retains RBC Investor & Treasury Services as the custodian of the Plan. The custodian is responsible for:

- safekeeping of assets;
- collection of income;
- settlement of investment transactions; and
- recording and verifying investment transactions.

RBC Investor & Treasury Services received $379 ,000 in fees in 2016.

Investment Objectives

Total Fund

The Fund's primary objective is to grow at a rate which exceeds the growth of the Plan's liabilities.

To achieve its goal, the Commission has established:

- a long term strategic asset mix that is reflected by the Plan's benchmark (a standard against which performance is measured);
- an investment management structure consisting of one or more investment managers in each major asset class; and
- a liability benchmark to approximate the growth of the Plan's going-concern pension liabilities.

MEPP Asset Mix

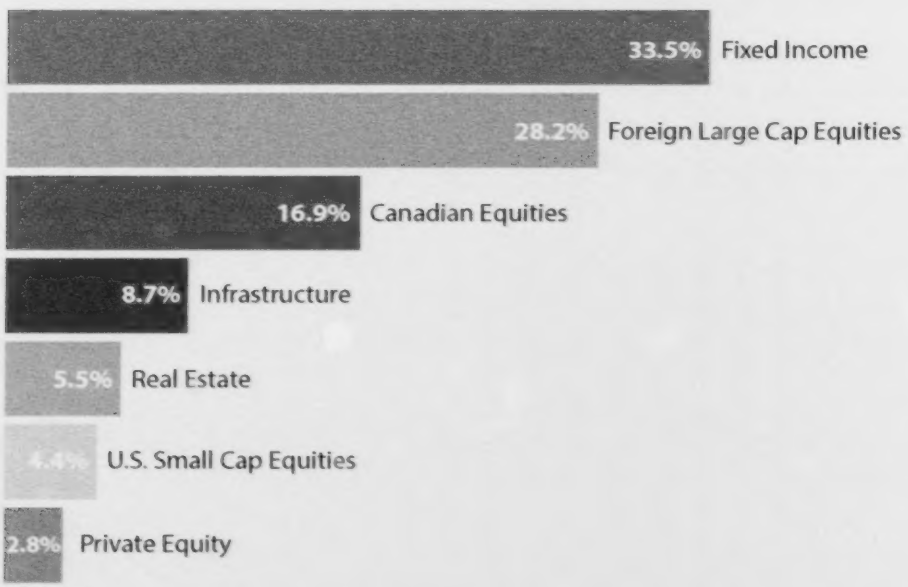
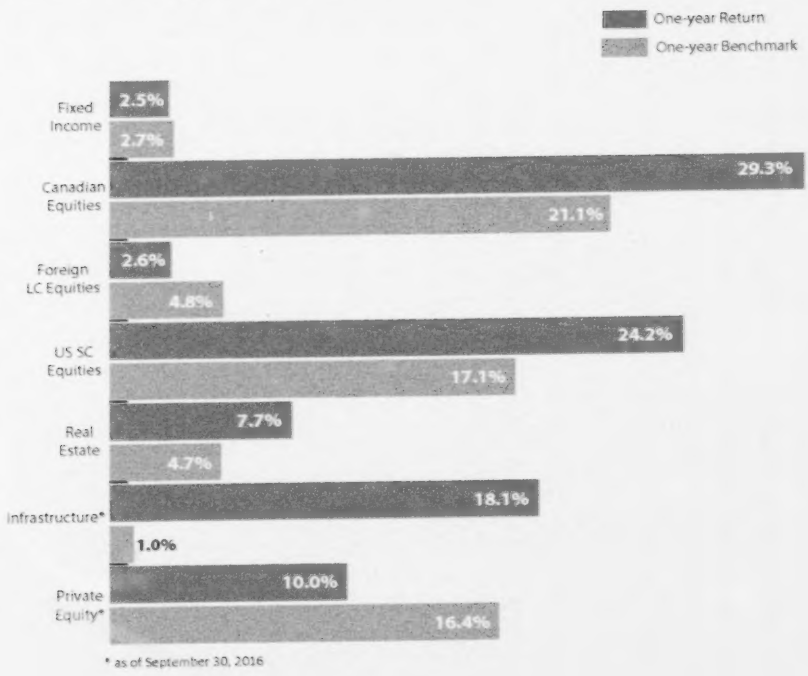
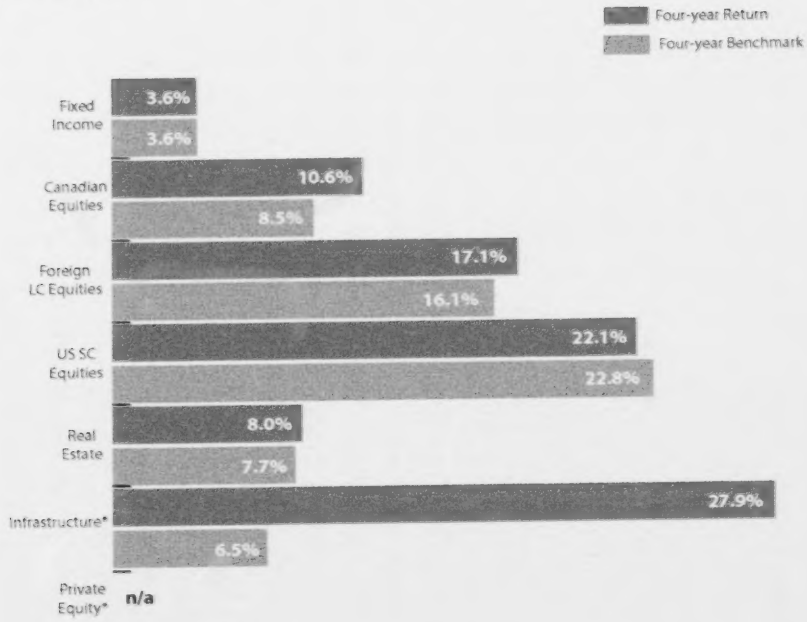


Figure 1.4

Performance by Asset Class



* as of September 30, 2016



* as of September 30, 2016

Foreign Currency Investment Manager

Pareto Investment Management Ltd. passively hedges 50 per cent of the Plan's foreign currency exposure within its foreign equities allocation against changes in value of various developed market currencies relative to the Canadian dollar. In 2016 this strategy had an impact of +2.6 per cent on foreign equities exposure, consistent with its benchmark.

Management's Report

To the Members of the Legislative Assembly of Saskatchewan:

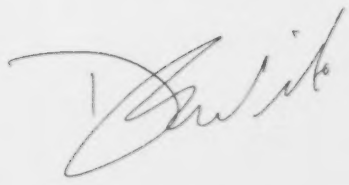
Administration of MEPP is presently assigned to PEBA of the Ministry of Finance. Management is responsible for financial administration, administration of funds and managing of assets.

The financial statements which follow have been prepared by management in conformity with Canadian accounting standards for pension plans. Management uses internal controls and exercises its best judgment in order that the financial statements fairly reflect the financial position of the Plan.

The Commission reviews and approves the financial statements. In doing so, the Commission has had the opportunity to discuss the statements with management throughout the year.

The provision for annuity benefits and the accrued pension benefits are determined by an actuarial valuation. Actuarial valuation reports require best estimate assumptions about future events and require approval by management.

The financial statements have been audited by KPMG whose report follows.



Dave Wild
Associate Deputy Minister
Public Employees Benefits Agency

Regina, Saskatchewan
March 17, 2017

Acturial Opinion

AON Hewitt

With respect to the *Municipal Employees' Pension Plan*, I have prepared an actuarial valuation as at December 31, 2015 with the results subsequently extrapolated to December 31, 2016, for the purpose of determining the necessary actuarial information for financial statement reporting purposes in accordance with Section 4600 of the CPA Canada Handbook.

In my opinion, for the purposes of this actuarial valuation and extrapolation:

- The data on which this valuation and subsequent extrapolation are based are sufficient and reliable.
- The assumptions are appropriate.
- The actuarial cost methods, extrapolation methods and valuation methods employed are appropriate.
- The actuarial valuation and extrapolation conform to the requirements of Section 4600 of the CPA Canada Handbook.

Nonetheless, emerging experience differing from the assumptions will result in gains or losses which will be revealed in subsequent valuations.

This report has been prepared and this actuarial opinion has been given in accordance with accepted actuarial practice in Canada.

David R. Larsen
Fellow, Society of Actuaries
Fellow, Canadian Institute of Actuaries

February 10, 2017

Financial Statements

Year ended December 31, 2016

KPMG LLP
Hill Centre Tower II
1881 Scarth Street, 20th Floor
Regina Saskatchewan S4P 4K9
Canada
Telephone (306) 791-1200
Fax (306) 757-4703

INDEPENDENT AUDITORS' REPORT

To the Members of the Legislative Assembly of Saskatchewan

We have audited the accompanying financial statements of Municipal Employees' Pension Plan, which comprise the statement of financial position as at December 31, 2016, the statements of changes in net assets available for benefits and changes in the provision for annuity obligation for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Municipal Employees' Pension Plan as at December 31, 2016, and the changes in its net assets available for benefits and changes in its provision for annuity obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

KPMG LLP

Chartered Professional Accountants

March 17, 2017
Regina, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Municipal Employees' Pension Plan
Statement of Financial Position

Statement 1

(in thousands)

Year Ended December 31	2016 Defined Benefit	2016 Retirement Annuities	2016 Total	2015 Total
ASSETS				
Investments (Note 4)	$ 1,986,021	$ 16,654	$ 2,002,675	$ 1,791,939
Investments under securities lending program (Note 4)	253,696	2,127	255,823	291,432
	2,239,717	18,781	2,258,498	2,083,371
Accounts receivable				
Employees' contributions	3,121	-	3,121	2,458
Employers' contributions	3,121	-	3,121	2,458
Accrued investment income	3,330	28	3,358	3,628
Other receivables	693	6	699	614
	10,265	34	10,299	9,158
Due from General Revenue Fund (Note 6)	6,117	51	6,168	6,685
Cash	48,575	407	48,982	49,462
Total assets	2,304,674	19,273	2,323,947	2,148,676
LIABILITIES				
Accounts payable	6,755	57	6,812	3,591
Currency hedging/Repurchase Agreements (Note 5)	24,570	205	24,775	15,249
Provision for annuity obligations (Statement 3, Note 10)	-	15,824	15,824	16,880
Total liabilities	31,325	16,086	47,411	35,720
NET ASSETS AVAILABLE FOR BENEFITS (Statement 2)	2,273,349	3,187	2,276,536	2,112,956
Pension Obligations (Statement 3, Note 9)	1,932,052	-	1,932,052	1,796,023
SURPLUS	$ 341,297	$ 3,187	$ 344,484	$ 316,933

(See accompanying notes to financial statements)

Municipal Employees' Pension Plan
Statement of Changes in Net Assets Available for Benefits

Statement 2

(in thousands)

Year Ended December 31	2016 Defined Benefit	2016 Retirement Annuities	2016 Total	2015 Total
INCREASE IN ASSETS				
Investment Income (Note 4)	$ 81,603	$ 727	$ 82,330	$ 75,126
Security lending income	693	6	699	298
	82,296	733	83,029	75,424
Change in fair value of investments	114,165	1,019	115,184	90,179
Contributions				
Employee contributions	49,075	-	49,075	46,842
Employer contributions	49,051	-	49,051	46,698
Reciprocal transfers in	1,276	-	1,276	1,153
Arrears contributions and interest	132	-	132	154
Inter-fund transfer	(42)	42	-	-
	99,492	42	99,534	94,847
Net decrease in provision for annuity benefits (Statement 3, Note 10)	-	1,056	1,056	1,064
Total increase in assets	295,953	2,850	298,803	261,514
DECREASE IN ASSETS				
Transfers and refunds (Note 8)	33,260	-	33,260	31,760
Benefit payments (Note 8)	9,968	-	9,968	9,520
Pension obligation payments	65,539	-	65,539	60,849
Annuities	-	2,653	2,653	2,817
Investment transaction costs	6,676	60	6,736	7,621
Administrative expenses (Note 12)	16,916	151	17,067	16,135
Total decrease in assets	132,359	2,864	135,223	128,702
INCREASE (DECREASE) IN NET ASSETS	163,594	(14)	163,580	132,812
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	2,109,755	3,201	2,112,956	1,980,144
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$ 2,273,349	$ 3,187	$ 2,276,536	$ 2,112,956

(See accompanying notes to financial statements)

Municipal Employees' Pension Plan
Statement of Changes in Pension Obligations and Provision of Annuity Obligations

Statement 3

(in thousands)

Year Ended December 31	2016	2015
PENSION OBLIGATIONS, BEGINNING OF YEAR	$ 1,796,023	$ 1,646,142
Increase in pension obligations		
Interest on pension obligations	107,440	101,731
Pension obligations accrued	96,853	90,589
Transfers-in	1,276	1,153
Experience loss	2,624	865
Change in assumptions	36,681	57,926
	244,874	252,264
Decrease in pension obligations		
Transfers, refunds and defined pension obligations paid	108,767	102,129
Transfer to provision for annuities	78	254
	108,845	102,383
PENSION OBLIGATIONS, END OF YEAR (Note 9)	$ 1,932,052	$ 1,796,023
PROVISION FOR ANNUITY OBLIGATIONS, BEGINNING OF YEAR	$ 16,880	$ 17,944
Increase in provision for annuity obligations		
Interest on annuity obligations	936	1,033
New annuities purchased	78	254
Experience loss	369	312
Change in assumptions	214	154
	1,597	1,753
Decrease in provision for annuity obligations		
Annuities paid	2,653	2,817
	2,653	2,817
PROVISION FOR ANNUITY OBLIGATIONS, END OF YEAR (Note 10)	$ 15,824	$ 16,880

(See accompanying notes to financial statements)

Municipal Employees' Pension Plan
Notes to the Financial Statements

December 31, 2016

1. Description of the Municipal Employees' Pension Plan

General

The Municipal Employees' Pension Plan (the "Plan") which is domiciled in Regina, Saskatchewan, is comprised of three components: defined benefit, defined contribution benefit and retirement annuities. The following description of the Plan is a summary only. For more complete information, reference should be made to *The Municipal Employees' Pension Act* (the "Act").

The Municipal Employees' Pension Act provides authority for the Plan. The Act directs that all allowances, payments and refunds under the Act shall be payable out of the Plan in the manner provided in the Act together with all benefits granted under a former Act. The Municipal Employees' Pension Commission (the "Commission") is responsible for holding in trust and investing the monies of the Plan. The Commission's composition and authority to administer the Plan are provided in Section 7 of the Act.

The Plan is registered under *The Pension Benefits Act, 1992* and is required to provide valuations every three years as to whether the Plan has sufficient assets to meet its pension obligations on an on-going basis as well as on a hypothetical wind-up basis. These valuations are filed with the Superintendent of Pensions (the "Superintendent"). If the Plan has insufficient assets, the Act outlines the steps to address the shortfall of assets. The Commission filed its December 31, 2015 valuation with the Superintendent. The fund is required to obtain the next actuarial valuation as at December 31, 2018.

Defined Benefit Component

The Defined Benefit Component became effective July 1, 1973. This Defined Benefit Component is mandatory for permanent employees and optional for some non-permanent employees.

A. Funding

Effective January 1, 2016, employee contributions are 8.15 per cent of salary for general members and 11.35 per cent for police officers and firefighters (2015- 8.15 per cent and 11.35 per cent respectively). Employee contributions are matched by the employer. There are some employee contributions that are not matched by employers, these contributions consist of transfers from other plans and purchase of prior services.

B. Pensions

Employees receive a pension at age 65 for general members and at age 60 for police officers and firefighters, for each year and fractional year of contributory service in the Plan prior to retirement that is determined as:

For service earned before 1990 and service earned after 2000 but before 2006, the number of years of contributory service during these periods times the greater of:

a) 1.8 per cent times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (two per cent for police officers and firefighters); or

b) i) 1.3 per cent of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and

ii) two per cent of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

For all other service, the number of years of contributory service for the period times the greater of:

a) 1.5 per cent times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (1.7 per cent for police officers and firefighters); or

b) i) 1.3 per cent of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and

ii) two per cent of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

Members who commenced employment on or after January 1, 1993:

For service earned after 2000 but before 2006, the number of years of contributory service during this period times 1.8 per cent times the average salary for the highest three - annualized years of the member's total pensionable service in the Plan (two per cent for police officers and firefighters).

For all other service, the number of years of contributory service for the period times 1.5 per cent times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (1.7 per cent for police officers and firefighters).

C. Retirement

Normal retirement is at age 65 for general members and age 60 for police officers and firefighters. Members may retire earlier under certain conditions.

The Plan also provides benefits in the event of termination of employment, death or disability.

D. Surplus

Any surpluses arising in the Plan can be utilized at the discretion of the Commission.

E. Transfers

Subject to lock in provisions of the Plan, transfer of a member's commuted value is payable when a member ceases to be employed.

As the December 31, 2015 actuarial valuation for filing purposes stated a solvency ratio of 85.1 per cent, commuted value transfers out of the Plan are limited to 85.1 per cent of the commuted value calculation. Payment of the remaining transfer deficiency shall occur over the following five-year period.

Defined Contribution Component

The Defined Contribution Component consists of members who made contributions to the Defined Contribution Component in effect prior to July 1, 1973. Members may retire and purchase an annuity at age 65. Members may retire earlier under certain conditions. Upon retirement a member can purchase an annuity from either the Plan or a private insurer based on employee and employer contributions together with the interest thereon. In the event of death prior to retirement, the member's spouse may receive a life annuity or elect to receive a lump-sum payment of employee and employer contributions plus interest. If the member's beneficiary is other than the spouse, a lump-sum payment of employee and employer contributions plus interest is made.

Retirement Annuities Component

If a member elects to purchase an annuity through the Commission, an annuity contract is issued based on the member's balance, current interest rates and annuity tables.

The present value of these annuities are reflected as a liability of the Plan.

Supplementary Benefits

In accordance with the Act, the Commission may grant supplementary benefits to those members receiving pensions and annuities to compensate them for lost purchasing power. The Commission may grant the supplementary benefits as long as the solvency of the entire Plan is not impaired.

Income Taxes

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

2. Basis of Preparation

a. Statement of Compliance

The financial statements for the year ended December 31, 2016 have been prepared in accordance with Canadian accounting standards for pension plans as defined in the CPA Canada Handbook section 4600, *Pension Plans*. For matters not addressed in Section 4600, International Financial Reporting Standards (IFRSs) have been followed.

b. Functional and Presentation Currency

These financial statements are presented in Canadian Dollars, which is the Plan's functional currency, and are rounded to the nearest thousand unless otherwise noted.

3. Significant Accounting Policies

The significant accounting policies are as follows:

a. Basis of Presentation

The Plan has disclosed financial results for its Defined Benefit and Retirement Annuities components separately. The Plan maintains a single investment portfolio and assets were allocated to the retirement annuities component at January 1, 2002 based upon the provision for annuity obligations as at that date. Investment income is split so that it matches the rate of return and operating expenses and the change in fair value have been allocated relative to the assets. These financial statements were authorized and issued by the Commission on March 17, 2017.

b. Investments

Investments are stated at their fair value in the Statement of Financial Position. The change in the fair value of investments at the beginning and end of each year is reflected in the Statement of Changes in Net Assets Available for Benefits.

Fair value of investments is determined as follows:

Short-term investments are valued at cost which, together with accrued investment income, approximates fair value given the short-term nature of these investments.

Bonds are valued at year-end quoted market prices in an active market when available. When quoted market prices are not available, the fair value is based on a valuation technique, being the present value of the principal and interest receivable discounted at the appropriate market interest rates.

Equities are valued at year-end quoted market prices from accredited stock exchanges on which the security is principally traded.

Private equity investments are valued at market values supplied by the private equity investment manager. These market values are based on the latest available private equity manager capital account statements and are adjusted for subsequent cash flows and changes in exchange rates for investments outside Canada.

Infrastructure investments are valued at market values supplied by the infrastructure investment manager. These market values are based on the latest available infrastructure manager capital account statements and are adjusted for subsequent cash flows and changes in exchange rates for investments outside Canada.

Pooled-fund investments are valued at the year-end unit value supplied by the pooled-fund administrator, which represent the underlying net assets of the pooled fund at fair values determined using closing bid prices. Real estate pooled-fund underlying assets are valued by third-party appraisals.

Investments in derivative financial instruments, including repurchase agreements and forwards are valued at year-end quoted market prices where available. Where quoted market prices are not available, values are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the position.

Investment transactions are recorded on the trade date.

c. Other Assets and Financial Liabilities

Accounts receivable are classified as loans and receivables and accounts payable are classified as other financial liabilities and are measured at amortized cost. Due to their short-term nature, the amortized cost of these instruments approximates their fair value.

d. Investment Income and Transaction Costs

Investment income, which is recorded on the accrual basis, includes interest income, dividends, pooled-fund income, infrastructure income, private equity income, and security lending income.

Brokers' commissions and other transaction costs are recognized in the statement of changes in net assets available for benefits in the period incurred.

e. Foreign Currency Translation

The fair values of foreign currency denominated investments included in the Statement of Financial Position are translated into Canadian dollars at year-end rates of exchange. Gains and losses from translations are included in the change in fair value of investments.

Foreign currency-denominated transactions are translated into Canadian dollars at the rates of exchange on the trade dates of the related transactions. Realized gains and losses on the sale of investments are included in the change in fair value of investments.

f. Provision for Annuity Obligations

Provision for annuity obligations represents the present value of the retirement annuities underwritten by the Plan and is determined pursuant to an actuarial valuation or extrapolation. Any change in the liability pursuant to the valuation or extrapolation is recognized as an increase or decrease in that year's statement of changes in pension obligations and provision for annuity obligations.

g. Use of Estimates

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statement and the recorded amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the valuation of investments, and the provision for annuity obligations and pension obligations. Actual results could differ from these estimates.

h. Future Accounting Policy Changes

Certain new standards, amendments to standards and interpretations, are not yet effective for the year ended December 31, 2016, and have not been applied in preparing these financial statements. In particular, IFRS 9, Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement, and includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and a new general hedge accounting model. The standard is effective for annual periods beginning on or after January 1, 2018. The extent of the impact of adoption of this standard is not known at this time, but is not expected to be material.

4. Investments

Details of significant terms and conditions, exposure to interest rate and credit risks of investments are as follows:

Investments

The carrying values of the Plan's investments are as follows:

(in thousands)

	2016			2015		
	Defined Benefit	Retirement Annuities	Total	Defined Benefit	Retirement Annuities	Total
Investments						
Short-term	$ 13,992	$ 116	$ 14,108	$ 29,115	$ 281	$ 29,396
Bonds	286,880	2,405	289,285	249,605	2,407	252,012
Equities	616,536	5,171	621,707	531,141	5,122	536,263
Private equity	63,985	537	64,522	37,262	359	37,621
Infrastructure	196,472	1,648	198,120	152,921	1,475	154,396
Pooled funds	808,156	6,777	814,933	774,779	7,472	782,251
	$1,986,021	$ 16,654	$ 2,002,675	$ 1,774,823	$ 17,116	$ 1,791,939
Investments under securities lending program						
Short-term	$ 5,784	$ 49	$ 5,833	2,477	$ 24	$ 2,501
Bonds	1,622	14	1,636	58,766	567	59,333
Equities	246,290	2,064	248,354	227,405	2,193	229,598
	$ 253,696	$ 2,127	$ 255,823	$ 288,648	$ 2,784	$ 291,432
	$2,239,717	$ 18,781	$ 2,258,498	$ 2,063,471	$ 19,900	$ 2,083,371

The Plan's investment income is comprised of the following:

(in thousands)

	2016			2015		
	Defined Benefit	Retirement Annuities	Total	Defined Benefit	Retirement Annuities	Total
Investment Income						
Interest	$ 11,347	$ 101	$ 11,448	$ 11,192	$ 108	$ 11,300
Pooled Funds	26,130	233	26,363	34,018	328	34,346
Dividends	20,757	185	20,942	22,096	213	22,309
Infrastructure	18,963	169	19,132	3,937	38	3,975
Private Equity	4,400	39	4,439	3,165	31	3,196
Other	6	-	6	-	-	-
	$ 81,603	$ 727	$ 82,330	$ 74,408	$ 718	$ 75,126

Security Lending Program

Through its custodian, the Plan participates in an investment security lending program for the purpose of generating fee income. Non-cash collateral of at least 105 per cent of the market value of the loaned securities is retained by the Plan until the loaned securities have been returned (see Securities lending in Note 11). The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

Short-Term Investments

These investments may comprise of treasury bills, notes, commercial paper and repurchase agreements. The cash equivalent component of short-term investments held as of December 31, 2016 had an effective interest rate of 0.4 per cent (2015 - 0.5 per cent) and an average term to maturity of 73 days (2015 – 56 days). The Plan's investment policy states that investments must meet a minimum investment standard of "A2/P2" or equivalent rating as rated by a recognized bond rating service. In the prior year, the Government of Canada represented 100 per cent of the total Plan's cash equivalent short-term investments. At December 31, 2016, the Government of Canada is the sole issuer of the Plan's cash equivalent short-term investments. Included in short-term investments is $3.0 million forward currency contracts (2015 - $-15.2 million included in currency hedging/repurchase agreements liability) (See Note 5).

Bonds

The Plan's investment policy states that bonds must meet a minimum quality standard of BBB as rated by a recognized bond rating service unless otherwise permitted within a specific investment manager mandate. In addition, not more than 10 per cent of its total bond market value may be invested in lower than BBB rated bonds. In 2016 there were 2.23 per cent of segregated bonds (2015 – 2.23 per cent) invested in lower than BBB Bonds.

The market value, coupon rates and effective interest rate to maturity are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

2016 (in thousands)

Years to Maturity	Federal	Foreign Government	Provincial	Municipal	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 5	$ 8,449	$ -	$ -	$ -	$ 120,437	$128,886	0.00% - 6.90%	1.43%
5 to 10	-	4,872	-	-	37,594	42,466	1.62% - 10.50%	5.24%
Over 10	31,487	-	25,392	906	61,784	119,569	4.25% - 9.70%	4.51%
Market Value	$ 39,936	$ 4,872	$ 25,392	$ 906	$ 219,815	$290,921		

2015 (in thousands)

Years to Maturity	Federal	Foreign Government	Provincial	Municipal	Corporate	Total Market Value	Coupon Rate	Effective Interest Rate
Under 5	$ 2,248	$ -	$ -	$ -	$ 100,337	$102,585	0.00% - 12.20%	2.07%
5 to 10	-	4,847	-	-	50,866	55,713	1.62% - 10.50%	4.99%
Over 10	23,070	-	77,476	436	52,065	153,047	2.75% - 7.56%	4.14%
Market Value	$ 25,318	$ 4,847	$ 77,476	$ 436	$ 203,268	$311,345		

All foreign bonds are reported in Canadian dollars.

Equities

The Plan's investment policy states that an investment in a single corporation shall not exceed 10 per cent of the total market value of the Plan assets at time of purchase.

In addition, the investment policy allows between 19 per cent and 41 per cent of the Plan to be invested in foreign public equities, including those held in pooled funds. As at December 31, 2016 the Plan held 21.89 per cent (2015 – 23.06 per cent) of the Plan's total investments in segregated foreign equities and 10.36 per cent (2015 – 11.20 per cent) of the Plan's total investments in pooled foreign equity funds. Segregated foreign equities are comprised of 63.12 per cent (2015 – 64.27 per cent) in U.S. equities and 36.88 per cent (2015 – 35.73 per cent) in Non-North American equities.

The Plan's equities have no fixed maturity date and are not exposed directly to interest rate risk. The average effective dividend rate is 2.56 per cent (2015 – 2.83 per cent).

Private Equities

Private equity investments are made through limited partnership arrangements. The investments represent partial equity ownership in entities that are not traded and priced in stock exchanges. Future commitments are due on demand and are based on the needs of the various partnerships the Plan has entered into. Liquidity requirements of meeting the future commitments are met through income generated from investment, holdings in pooled funds and investments in liquid assets traded on an active market which can be easily sold and converted into cash.

The Plan's private equity investments consist of the following:

	(in thousands)	
	2016	2015
Falcon Strategic Partners Fund IV	$ 6,361	$ 5,311
Neuberger Berman Secondary Opportunities Fund III	6,985	5,523
Silver Lake Partners Fund IV	2,188	1,378
Vista Equity Partners Fund V	6,000	4,919
New Mountain Partners Fund IV	8,852	5,645
Great Hill Equity Partners Fund V	9,201	7,100
Stirling Square Partners Fund III	4,616	3,036
Lovell Minnick Equity Partners Fund IV	3,063	2,546
Lexington Capital Partners Fund VIII	3,114	2,163
Falcon Strategic Partners Fund V	4,461	-
Vista Equity Partners Fund VI	4,737	-
K3 Investment Management, LLC	420	-
Thompson Street Capital Partners IV	4,524	-
	$ 64,522	$ 37,621

Private equity managers form limited partnerships to facilitate investments in private companies in various markets across the globe. In addition to the above listed limited partnerships, the Plan has committed to invest with Clayton, Dubilier & Rice Fund X, L.P. and NB Secondary Opportunities Fund IV. As at December 31, 2016 the Plan was committed to further investment in private equity limited partnerships up to $102.4 million in Canadian funds (2015 - $89.0 million).

The Plan's investment policy limits private equity investments from a minimum of one per cent to a maximum of eight per cent of the Plan's assets. As of December 31, 2016 the Plan's private equity investments were 2.89 per cent (2015 – 1.81 per cent) of the Plan investments.

Private equity managers utilize an internal valuation policy to establish a market value for the underlying assets within their portfolios. This policy outlines that any marketable assets within the portfolio will be valued at the price on the relevant securities exchange. Non-marketable securities will be subject to professional judgment and may take into account several factors such as:

- Market conditions
- Purchase price
- Estimated liquidation value
- Third-party transactions in the private market
- Present value of expected future cash flows
- Present value of anticipated sale or flotation when asset is soon to be divested

The above factors involve various assumptions. Changes in the underlying assumptions will have an impact on the market value of the investments.

Infrastructure Investments

Infrastructure investments are made through limited partnership arrangements. Advances are made to the limited partnerships, some of which are used to select and provide management support to the invested companies. The investments represent ownership in entities that invest in infrastructure assets. Future commitments are due on demand and are based on the needs of the various partnerships the Plan has entered into. Liquidity requirements of meeting the future commitments are met through income generated from investment, holdings in pooled funds and investments in liquid assets traded on an active market which can be easily sold and converted into cash.

The Plan's infrastructure investments consist of the following:

	(in thousands)	
	2016	2015
SteelRiver North American Infrastructure Fund I	$ 60,698	$ 52,478
Global Infrastructure Partners Fund I	19,198	30,463
Global Infrastructure Partners Fund II	35,949	26,352
Antin Infrastructure Partners Fund II	34,337	27,718
Kohberg Kravis Roberts Global Infrastructure Fund II	15,074	5,836
Macquarie Asia Infrastructure Fund	17,899	11,549
Global Infrastructure Partners Capital Solutions	14,965	-
	$ 198,120	$ 154,396

Infrastructure managers form limited partnerships to facilitate investments in infrastructure projects in various markets across the globe. As at December 31, 2016 the Plan was committed to further investment in infrastructure limited partnerships up to $91.4 million in Canadian funds (2015 - $109.2 million).

The Plan's investment policy limits infrastructure investments from a minimum of four per cent to a maximum of 13 per cent of the Plan's assets. As of December 31, 2016 the Plan's infrastructure investments were 8.87 per cent (2015– 7.41 per cent) of the Plan investments.

Infrastructure managers utilize an internal valuation policy to establish a market value for the underlying assets within their portfolios. This policy outlines that any marketable assets within the portfolio will be valued at the price on the relevant securities exchange. Non-marketable securities will be subject to professional judgment and may take into account several factors such as:

- Market conditions
- Purchase price
- Estimated liquidation value
- Third-party transactions in the private market
- Present value of expected future cash flows
- Present value of anticipated sale or flotation when asset is soon to be divested

The factors involve various assumptions. Changes in the underlying assumptions will have an impact on the market value of the investments.

Pooled Funds

The Plan's investment policy limits pooled-fund holdings to not more than 10 per cent of the market value of the individual pooled fund. Exceptions to the 10 per cent limit are allowed if provision has been made to transfer securities in kind when units of the pooled fund are sold. At December 31, 2016, there were provisions in place for all the Plan's pooled funds.

The Plan's pooled funds are comprised of:

Pooled Fund	Units Held (in thousands)		% of Total Units Outstanding		Market Value (in thousands)	
	2016	2015	2016	2015	2016	2015
U.S. Equity						
BlackRock U.S. Equity Fund	4,938	5,634	2.75%	2.87%	$ 114,026	$ 120,377
Non-North American Equity						
Brandes Non-North American Equity Fund	6,661	6,179	22.13%	24.29%	104,059	95,298
Vontobel India Fund	71	80	1.25%	0.56%	13,399	15,872
Bonds						
Wellington Canada Long Bond Plus Portfolio	19,643	18,680	27.61%	26.94%	223,007	218,579
PIMCO Canada CorePLUS Bond Trust	2,271	2,059	10.89%	9.60%	235,958	216,557
Real Estate						
Greystone Real Estate Fund	1,004	1,004	1.85%	2.00%	124,484	115,568
					$ 814,933	$ 782,251

Pooled-fund investments are governed by the policies for each fund. Financial derivatives are permitted within the pooled funds as outlined below:

BlackRock U.S. Equity Fund may contain equity index futures, to replicate the return of the S&P 500 Composite Index.

Brandes Non-North American Equity Fund may employ the use of foreign exchange contracts to hedge against changes in exchange rates and depositary receipts to substitute for direct investment in the underlying security.

Vontobel India Fund does not use derivative instruments.

Wellington Canada Long Bond Plus Portfolio may buy and sell exchange-traded and over-the-counter derivative instruments, including interest rate, credit, index, and currency futures; currency, interest rate, total rate of return, and credit default swaps; currency, bond, and swap options; deliverable and non-deliverable currency forward contracts; and "to-be-announced" securities. The portfolio may also hold short positions in these instruments for hedging purposes, and in pursuit of the Portfolio's investment objective.

PIMCO Canada CorePLUS Bond Trust may seek to obtain market exposure to the securities in which it primarily invests by using derivative instruments such as futures contracts, swap agreements or options, or by entering into forward transactions or by using other investment techniques.

Investments in real estate consist of Canadian commercial property held directly by the Greystone Real Estate Fund. The market appraisals used in valuing the real estate involve various assumptions. Changes in the underlying assumptions will have an impact on the market value of the investments. Greystone Real Estate Fund does not use derivative instruments.

Fair Value

The Plan has classified its investments using a hierarchy that reflects the significance of the inputs used in determining their fair value.

Under the classification structure, financial instruments recorded at unadjusted quoted prices in active markets for identical assets and liabilities are classified as Level 1. Instruments valued using inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly are classified as Level 2. Instruments values using inputs that are not based on observable market data are classified as Level 3.

The following table classifies the Plan's required financial instruments within a fair value hierarchy:

2016
(in thousands)

	Level 1	Level 2	Level 3	Total
Bonds	$ -	$ 290,921	$ -	$ 290,921
Pooled funds	-	690,448	124,485	814,933
Short-term	19,941	-	-	19,941
Equities	870,061	-	-	870,061
Private Equity	-	-	64,522	64,522
Infrastructure	-	-	198,120	198,120
Total	$ 890,002	$ 981,369	$ 387,127	$ 2,258,498

No investments were transferred between levels during the year.

	Fair Value measurements using level 3 inputs			
	Infrastructure	Real Estate Pooled Fund	Private Equities	Total
Balance at December 31, 2015	$ 154,396	$ 115,568	$ 37,621	$ 307,585
Purchases	47,448	-	29,393	76,841
Sales/ return of capital	(9,413)	-	(2,614)	(12,027)
Gains (losses)				
Realized	1,796	-	123	1,919
Unrealized	3,893	8,917	(1)	12,809
Balance at December 31, 2016	$ 198,120	$ 124,485	$ 64,522	$ 387,127

	2015 (in thousands)			
	Level 1	Level 2	Level 3	Total
Bonds	$ -	$ 311,345	$ -	$ 311,345
Pooled funds	-	666,683	115,568	782,251
Short-term	31,897	-	-	31,897
Equities	765,861	-	-	765,861
Private Equity	-	-	37,621	37,621
Infrastructure	-	-	154,396	154,396
Total	$ 797,758	$ 978,028	$307,585	$ 2,083,371

5. Derivatives

Derivative financial instruments are financial contracts whose values are derived from changes in underlying assets, interest or currency exchange rates.

At December 31, 2016 the Plan held the following derivatives:

Forward Contracts

The Plan has entered into foreign exchange forward contracts to hedge some of its foreign currency exposure in its foreign equities. Foreign exchange forward contracts are obligations in which two counterparties agree to exchange one currency for another at a specified price for settlement on a predetermined date in the future.

The Plan uses a passive hedging strategy with an applied hedge ratio of 50 per cent of the underlying portfolio. The objective of the passive currency hedge is to provide partial protection of the base currency value of foreign equities against a decline in value of the applicable non-base currencies. The following summarizes the Plan's use of foreign currency forward exchange contracts within the passive currency hedging strategy:

FOREIGN EXCHANGE FORWARD CURRENCY CONTRACTS

(in thousands)

	2016			2015		
Currency	Notional Value*	Gain (Loss)	Net Exposure	Notional Value*	Gain (Loss)	Net Exposure
AUD	$ 40	$ 2	49.7%	$ 1,951	(132)	49.0%
CHF	9,802	396	50.0%	13,520	(612)	50.0%
DKK	-	-	0.0%	1,908	(101)	50.0%
EUR	29,080	1,418	50.0%	22,089	(1,166)	50.0%
HKD	7,326	(10)	50.1%	9,176	(423)	50.0%
JPY	13,952	1,403	50.0%	15,651	(1,014)	50.0%
MXN	2,650	211	50.1%	1,850	(32)	50.0%
GPB	22,379	39	50.0%	25,344	(314)	50.0%
SEK	664	4	50.0%	679	(49)	48.0%
USD	262,399	(472)	50.1%	254,935	(11,438)	50.0%
ZAR	1,352	5	50.3%	1,153	32	50.2%
		$ 2,996			$ (15,249)	

*Notional value represents the contractual amount to which a rate or price is applied in order to calculate the exchange rate of cash flows, and is therefore not recorded on the financial statements.

Based on the rates of exchange as of December 31, 2016, the forward contracts are in a net gain position of $3.0 million (2015 – loss of $15.2 million). As at December 31, 2016 forward contracts are included in short-term investments and in 2015 were included in currency hedging/repurchase agreements liability. The foreign currency forward exchange contracts are short-term in duration and all current contracts as of December 31, 2016 have a maturity date of less than one year.

Repurchase Agreements

A repurchase agreement, also known as a repo, is a contract entered into between two counterparties to sell securities together with an agreement for the seller to buy back the securities at a later date. At December 31, 2016, the repurchase agreements have a notional value of $141 million (2015 - $969 million) and a fair value of $-24.8 million (2015 - $29.2 million). This amount is included in currency hedging/repurchase agreements liability and in 2015 was included in short-term investments. The repurchase agreements have a term to maturity of less than one year. The amount of bonds pledged for collateral is $53.1 million (2015 - $96.5 million). The amount of collateral required is based on the notional value of the repurchase agreements and may fluctuate with the notional value. Collateral may be pledged to the Plan if the market value of the repurchase agreements changes significantly. As at December 31, 2016 the repurchase agreements are in the process of winding down.

6. Due from General Revenue Fund

The Plan's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

Earned interest is calculated and paid by the General Revenue Fund on a quarterly basis using the Government's thirty-day borrowing rate and the Plan's average daily bank account balance. The Government's thirty-day borrowing rate for 2016 was 0.55 per cent (2015 – 0.65 per cent).

7. Earnings Allocation to Members

Interest is allocated annually to the individual member's account balances in accordance with the provisions of the governing legislation. At December 31, 2016, an interest rate of 1.15 per cent (2015 – 1.25 per cent) was applied.

8. Transfers, Refunds and Benefit Payments

(in thousands)

	2016	2015
Transfers to other retirement plans	$ 267	$ 479
Transfer to other retirement vehicles	21,373	20,838
Withdrawals with interest	11,620	10,443
Total Transfers and Refunds	$ 33,260	$ 31,760
Lump sum payments to estates	2,281	3,787
Payments in lieu of annuities	7,687	5,733
Total Benefit Payments	9,968	9,520
Total Transfers, Refunds and Benefit Payments	$ 43,228	$ 41,280

9. Pension Obligations

The actuarial present value of pension obligations for the Defined Benefit Component of the Plan was determined using the projected benefit method prorated on service and management's best estimate assumptions of future investment performance, salary escalation, inflation, and future pension indexing.

An actuarial valuation for management purposes was performed as at December 31, 2015 by AON Hewitt and they have extrapolated the results of that valuation to December 31, 2016 with interest, estimated service accruals and actual obligation payments for the purposes of these financial statements.

An actuarial valuation for filing and funding purposes was performed as at December 31, 2015 by AON Hewitt and filed with the regulatory authorities. The next valuation to be filed will be required effective December 31, 2018.

The pension liability is based on a number of assumptions about future events including interest rates, rate of salary increases, inflation, mortality, retirement rates and termination rates. The major assumptions used in determining the actuarial present value of pension obligations for the Defined Benefit Component of the Plan are:

	2016	**2015**
Interest rate	5.75%	6.00%
Salary escalation	3.00%	3.00%
Inflation	2.25%	2.25%
Indexation of pensions	none assumed	none assumed
Mortality	CPM 2014 Private at 115% for males and 100% for females (projected generationally)	CPM 2014 Private at 115% for males and 100% for females (projected generationally)

Actual rates may vary significantly from the long-term assumptions used. The following illustrates the effect of changing certain assumptions from the assumed rates of salary of three per cent, interest rate of 5.75 per cent, indexing on pre-1999 benefits of zero per cent, and indexing on post-1998 benefits of zero per cent. The changes in assumptions are independent of one another.

Effect on Pension Obligation Liability

	Salary		Interest Rate		Pension Indexing (pre 1999)	Pension Indexing (post 1998)
Assumptions	2.0%	4.0%	4.75%	6.75%	1.0%	1.0%
(Decrease) Increase	(2.8%)	3.1%	13.9%	(11.1%)	3.0%	7.1%

Because the Plan has a solvency deficiency, there is a requirement for a solvency deficiency holdback to be withheld from payouts of commuted value for a period of five years. Solvency deficiency holdbacks owing as of December 31, 2016 are a total of $18.8 million (2015 - $13.0 million).

10. Provision for Annuity Obligations

The actuarial present value of the provision for annuity obligations was determined using management's best estimate of future investment performance and future pension indexing. Aon Hewitt performed an actuarial valuation for management purposes as at December 31, 2015 and they have extrapolated the results of that valuation to December 31, 2016 with interest and actual benefit payments.

An actuarial valuation for filing purposes was performed as at December 31, 2015 by Aon Hewitt and filed with the regulatory authorities. The next valuation to be filed will be required effective December 31, 2018.

The actuarial valuation was based on a number of assumptions about future events including interest rates, pension indexing (for members who elected indexed annuities), and mortality as follows:

	2016	2015
Interest Rate	5.75%	6.0%
Indexation of Pensions	2.25%	2.25%
Mortality	CPM 2014 Private at 115% for males and 100% for females (projected generationally)	CPM 2014 Private at 115% for males and 100% for females (projected generationally)

The actual rates may vary significantly from the assumptions used. The following illustrates the effect of changing certain assumptions from the assumed interest rate of 5.75 per cent and pension indexing of 2.25 per cent. The changes in assumptions are independent of one another.

Effect on Provision for Annuity Obligations

	Interest Rate		Pension Indexing	
Assumptions	4.75%	6.75%	1.25%	3.25%
(Decrease) Increase	5.8%	(5.2%)	(0.6%)	0.7%

The cash outflow to pay the required annuity obligation is calculated using the above assumptions. The cash outflows in the next five years would be $10.1 million, in the next 10 years $16.3 million and in the next 30 years $22.9 million.

11. Financial Risk Management

The nature of the Plan's operations results in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Plan's investments. These financial risks are managed by having an investment policy, which is approved annually by the Commission. The investment policy provides guidelines to the Plan's investment managers for the asset mix of the portfolio regarding quality and quantity. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. Derivatives are allowed within the Plan to hedge against losses and substitute for direct investment. Public Employees Benefits Agency monitors compliance and reports on exceptions to the Commission through the quarterly Administration Reports.

Credit risk

Credit risk is the risk that one party does not pay funds owed to another party. The Plan's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which it is exposed at December 31, 2016 is limited to the carrying value of the financial assets summarized as follows:

	(in thousands)	
	2016	**2015**
Cash	$ 48,982	$ 49,462
Accounts receivable	10,299	9,158
Fixed income investments[1]	310,862	343,242
Due from the General Revenue Fund	6,168	6,685
Equities under security lending	248,354	229,598

[1]Includes short-term investments and bonds, including those under security lending, and derivatives.

Accounts receivable are made up of employee and employer contributions receivable, accrued investment income, and other receivables. Employee and employer contributions receivable are generally received in less than 30 days. Accrued investment income is received on the next scheduled payment date, generally either annually or semi-annually. Proceeds from the sale of an investment will normally be received three days after the trade date.

Credit risk within investments is primarily related to short-term investments and bonds. It is managed through the investment policy that limits fixed term investments to those of high credit quality (minimum rating for bonds, BBB unless otherwise permitted within specific investment manager mandate, and for short-term investments is A2/P2) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit ratings for bonds are as follows:

(In thousands)

	2016		2015	
Credit Rating	Fair Value	Makeup of Portfolio (%)	Fair Value	Makeup of Portfolio (%)
AAA	$ 65,794	22.62	$ 62,836	20.18
AA	51,885	17.83	85,054	27.32
A	92,957	31.95	76,922	24.71
BBB	73,791	25.37	79,576	25.56
BB	6,494	2.23	6,957	2.23
B	-	-	-	-
Unrated	-	-	-	-
Total	$ 290,921	100.00	$ 311,345	100.00

Within bond investments, there are no holdings from any one issuer (other than the Government of Canada or a Canadian province) over 9.58 per cent (2015 – 6.76 per cent) of the market value of the combined bond and short-term investment portfolios. No one holding of a province is over 6.28 per cent (2015 – 9.66 per cent) of the market value of the bond portfolio.

The Plan is also subject to credit risk through its use of derivative contracts. The contracts are entered into between the Plan and approved counterparties. The credit risk is mitigated by limiting counterparties to specific entities.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Plan is exposed to changes in interest rates in its fixed income investments, including short-term investments and bonds. Duration is a measure used to estimate the extent market values of fixed-income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point increase in interest rates would decrease net assets available for benefits and surplus by $81 million at December 31, 2016 (2015- $220 million); representing 9.6 per cent of the $0.84 billion fair value of fixed-income investments, of which $141 million (2015 - $969 million) is included in Repurchase Agreements – see Note 5. Conversely, a decrease in interest rates of 100 basis points would increase net assets available for benefits and surplus by $81 million at December 31, 2016 (2015 - $220 million); representing 9.6 per cent of the $0.84 billion fair value of fixed income investments.

The Plan has implemented a fixed income overlay strategy to manage interest rate exposure. This overlay creates an asset-liability duration match which neutralizes the market value impact of interest rate shocks. Repurchase agreements have been transacted as a means to position duration of assets to parallel the duration (or interest rate sensitivity) of Plan liabilities.

Foreign exchange

The Plan is exposed to changes in the U.S./Canadian dollar exchange rate through its U.S. denominated investments and investment in private markets (includes private equity and infrastructure). Also, the Plan is exposed to non-North American currencies through its investment in non-North American equity pooled funds and investment in private markets.

The exposure to both U.S. public equities and non-North American public equities, including the pooled equity funds, is limited from a minimum of 19 per cent to a maximum of 41 per cent of the market value of the total investment portfolio. At December 31, 2016, the Plan's exposure to U.S. equities was 19.9 per cent (2015 – 21.5 per cent) and its exposure to Non-North American equities was 11.6 per cent (2015 – 11.9 per cent).

In addition, at December 31, 2016 the Plan's exposure to private markets was 11.5 per cent (2015 – 9.2 per cent).

At December 31, 2016, a 10 per cent change in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $47.4 million (2015 - $40.6 million) change in the net assets available for benefits. A 10 per cent change in the Canadian dollar versus the Non- North American currencies would result in approximately a $15.5 million (2015 - $14.6 million) change in net assets available for benefits.

The Plan's exposure to exchange rate risk resulting from the purchase of goods and services is not considered material to the operations of the Plan. The Plan has mitigated its exposure to foreign exchange through the use of derivatives as explained in Note 5. As at December 31, 2016, the Plan's exposure net of derivatives is $619 million (2015 – $545 million). A 10 per cent change in the exchange rate would equate to a net change of $61.9 million (2015 – $54.5 million).

Equity prices

The Plan is exposed to changes in equity prices in Canadian, U.S. and non-North American markets. Equities comprise 48.1 per cent (2015 – 47.0 per cent) of the carrying value of the Plan's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee represents greater than 10 per cent of the market value of the Plan. As well, no one holding represents more than 30 per cent of the outstanding share issue of any corporation.

The following table indicates the approximate change that could be anticipated for both the increase and decrease in net assets available for benefits based on changes in the Plan's benchmark indices at December 31, 2016:

	(in thousands) 10% increase	10% decrease
S&P/TSX Composite Index	$ 37,891	$ (37,891)
S&P 500 Index	45,476	(45,476)
MSCI EAFE Index	26,569	(26,569)

Securities lending

At December 31, 2016, no Plan assets have been deposited or pledged as collateral as part of the securities lending strategy. As part of the Plan's securities lending strategy, collateral has been pledged to the Plan by various counterparties for securities out on loan to the counterparties. At December 31, 2016, the total amount of collateral pledged to the Plan amounted to $269 million (2015– $306 million). Security lending obtains collateral of at least 105 per cent of the market value of the securities lent. Such loans must be secured by readily marketable government bonds, treasury bills and/or letters of credit, discount notes and banker's acceptances of Canadian chartered banks.

Private Equity Risk

Risk in private equity investments is managed through diversification across sectors and geographic regions. Adverse impacts in any one sector of the market or geographic location are minimized by having holdings diversified across sectors, geographic location and investment size.

Infrastructure Investment Risk

Risk in infrastructure investments is managed through diversification across sectors and geographic regions. Adverse impacts in any one sector of the market or geographic location are minimized by having holdings diversified across property type, geographic location and investment size.

Real Estate Risk

Risk in real estate investments is managed through diversification across geographic location within Canada and property type. Adverse impacts in any one geographic location are minimized by having holdings in other locations and property types.

Liquidity risk

Liquidity risk is the risk that the Plan is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. Accounts payable are due within one year.

The Plan's future obligations include the Plan's accrued pension obligation and other contracts the Plan may enter that give rise to commitments of future outflows of cash. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions and by investing in liquid assets that are easily sold and converted into cash.

12. Administrative Expenses

The annual operating expenditures associated with the Plan's administration are paid to the Public Employees Benefits Agency Revolving Fund except for custodial fees and investment base fees, which are paid directly.

	(in thousands)	
	2016	2015
Audit fees	$ 70	$ 96
Actuarial fees	190	152
Administration costs	5,600	5,510
Custodial fees	379	271
Investment base fees	$ 10,828	$ 10,106
	$ 17,067	$ 16,135

13. Related Party Transactions

All Government of Saskatchewan agencies such as ministries, corporations, boards and commissions are related to the Plan by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control or significant influence by the Government of Saskatchewan are collectively referred to as "related parties". Costs charged by the Public Employees Benefits Agency Revolving Fund in administering the Plan are reflected in these financial statements.

Province of Saskatchewan Bonds were held throughout the year, however the bonds were sold prior to year-end, therefore the Plan does not hold any Province of Saskatchewan bonds as at December 31, 2016 (2015 - $6.4 million). Investment gains on the bonds held throughout the year, including the current period change in the market value of investments, was $0.3 million (2015 - $0.2 million).

The Plan has an accounts payable balance as at December 31, 2016 of $1.5 million (2015 – $0.9 million) due to the Public Employees Benefits Agency Revolving Fund.

Other related party transactions are disclosed separately in these financial statements.

Account balances resulting from the above transactions are included in the statement of financial position and are settled at agreed upon exchange rates.

14. Capital Management

The Plan receives new capital from employee and employer contributions. The plan also benefits from income and market value increases on its invested capital. The Plan's capital is invested in a number of asset classes including equities, fixed-income, infrastructure, private equity and short-term investments. The Commission has delegated the operational investment decisions to a number of different investment management firms through a number of different investment mandates as defined in the Plan's Statement of Investment Policy and Procedures.

15. Investment Performance

The investment managers make day-to-day decisions on whether to buy or sell investments in order to achieve the long-term performance objectives set by the Commission. The Commission reviews the investment performance of the Plan in terms of the performance of the benchmark portfolio over four-year rolling periods. The Plan's primary objective is to grow at a rate which exceeds the growth of the Plan's liabilities

The following is a summary of the Plan's investment performance:

	2016	
	Annual Return	**Rolling Four Year Average**
Plan's actual rate of return before deducting investment and administration expenses	8.9%	11.6%
Benchmark	6.9%	9.9%

16. Fair Value

For financial instruments including due from general revenue fund, short-term investments, accounts receivable, and accounts payable, cost approximates fair value due to their immediate or short-term maturity.

The fair values of investments are considered to be market value, the calculation of which is detailed in Note 4.

17. Contingencies

A union representing participating employees has applied by Notice of Motion, which also names several participating employers, for an order quashing purported decisions of the Commission relating to the application of actuarial surplus in the fund, as well as other relief. It is not possible to estimate the potential effect of the claim at this stage in the proceedings.

18. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

Appendix

Description of Market Indices

S&P/TSX Composite

The S&P/TSX Composite Index is Canada's bellwether electronically operated stock exchange. It is the headline index and the principal broad market measure for the Canadian equity markets. This is the basis for numerous sub-indices, which break down the Canadian market by different factors including size, Global Industry Classification Standard (GICS®) and income trust inclusion versus non-inclusion. The index is calculated and managed by Standard & Poor's and is the main benchmark for Canadian pension and mutual equity funds.

S&P/TSX Capped Composite

S&P/TSX Capped Composite index includes all constituents of the S&P/TSX Composite index with relative weighting of each constituent capped at 10% equity weighting.

S&P 500

Standard & Poor's 500 Composite Stock Index consists of the largest 500 companies in the United States chosen for market size, liquidity and industry group representation. It is a market-value weighted index, with each stock's weight in the index proportionate to its market value. For the purposes of this report, the S&P Index returns are converted from U.S. dollars into Canadian dollars and, therefore, reflect currency gains or losses.

MSCI EAFE

Morgan Stanley Capital International Europe, Australasia, Israel, and Far East Index (MSCI EAFE Index) is a widely recognized benchmark of international equity performance. It is a free-float weighted equity index comprising of over 20 developed market country underlying indices representing developed markets outside of Canada and the US.

DEX UBI

DEX (formerly Scotia Capital) Universe Bond Index covers all marketable Canadian bonds with term to maturity of more than one year. The Universe contains over 1,000 marketable Canadian bonds with an average term of 10 years and an average duration of 6.5 years. The purpose of the index is to reflect the performance of the broad "Canadian Bond Market" in a similar manner to the S&P/TSX Composite Index.

DEX All Corporate Bond

DEX All Corporate Bond Index covers all marketable Canadian corporate bonds with a term to maturity of more than one year. The index is based on the Corporate sector of the DEX UBI. The purpose of the index is to reflect the performance of the corporate Canadian bond market.

DEX Long Term Overall Bond

DEX Long Term Overall Bond Index covers all marketable Canadian bonds with a term to maturity of at least 10 years. The index is based on the long-term bonds held within the DEX UBI. The purpose of the index is to reflect the performance of the long-term Canadian bond market.

DEX Long Government Bond

DEX Long Government Bond Index covers all marketable Canadian government bonds with a term to maturity of more than 10 years. The index is based on the government bonds held within the DEX UBI. The purpose of the index is to reflect the performance of the Canadian long government bond market.

IPD Total Property

The REALpac / IPD Canada Annual Property Index is published by the Investment Property Databank Ltd. On December 31, 2010, REALpac assumed the functions of the Institute of Canadian Real Estate Investment Managers ("ICREIM"), an organization originally formed to manage the Frank Russell Index for Canada and subsequently, the ICREIM / IPD Canada Property Index. The index measures total returns to directly held standing property investments from one open market valuation to the next. IPD compiles property level information from pension funds, life insurance companies and real estate managers on a quarterly basis.

91-Day T-Bills

Canada Treasury Bills represent the highest quality short-term instruments available. The index is constructed by selling and repurchasing Government of Canada T-Bills with an average term to maturity of 91 days. The Scotia Capital 91-Day Treasury Bill Index is calculated and marked to market daily.

CPI

Consumer Price Index is used to gauge Canada's inflation rate. The series used is the all items, not seasonally adjusted, 1992 base.

Russell 2000

The Russell 2000 Index offers investors access to the small-cap segment of the U.S. equity universe. The Russell 2000 is constructed to provide a comprehensive and unbiased barometer for the small-cap segment and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

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